# OLR RESEARCH REPORT

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## SELECTED STATES ECONOMIC DEVELOPMENT INCENTIVES

By: John Rappa, Chief Analyst

You asked for a comparison of Connecticut's, South Carolina's, and Texas' economic development incentives.

## SUMMARY

Connecticut, South Carolina, and Texas provide many similar economic development incentives, which consist of tax benefits and direct financial assistance. Tax benefits include business and personal income tax credits, sales and use tax exemptions, and property tax exemptions. Direct financial assistance includes state-funded grants, loans, and venture capital investments.

The states provide these incentives for the following purposes, which we discuss below: developing communities, providing general business assistance, funding specific types of projects, developing facilities, supporting specific industry sectors, developing the workforce, and investing venture capital.

## COMMUNITY DEVELOPMENT

Community development incentives include (1) tax breaks for businesses developing property or making other capital investments in designated areas and (2) funds for municipalities preparing land and constructing infrastructure for new or expanding businesses.

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Each state offers different kinds of tax breaks to businesses in designated areas, including economically distressed "enterprise zones." Connecticut's tax benefits include state-reimbursed property tax exemptions and business tax credits. South Carolina provides only business tax credits, and Texas, only sales and use tax refunds.

Besides providing tax credits to businesses, the states provide funds to municipalities for developing land or infrastructure to support economic development. Texas specifically lends funds to municipalities that levy a local option sales tax to generate the revenue needed to repay the state loans.

Table 1 compares the states' community development incentives.

**Table 1: Selected States Community Development Incentives**

<table>
<tr><th>Connecticut</th><th>South Carolina</th><th>Texas</th></tr>
<tr><td colspan="3">Tax Benefits</td></tr>
<tr>
<td>• Business tax credits and five-year state-reimbursed property tax exemptions for developing property for specified business uses in enterprise zones and other statutorily designated areas, including airport development zones<br>• Business tax credits for starting new corporations in enterprise zones<br>• Sales tax exemptions for machinery replacement parts for businesses in enterprise zones</td>
<td>• Business tax credits for property improvements, job training, and other specified activities in expanding enterprise zones<br>• One-time, 5% business tax credit for machinery and equipment purchases for business facilities in economic impact zones</td>
<td>State sales and use tax refunds for businesses:<br>• operating in enterprise zones<br>• creating jobs in defense-dependent municipalities</td>
</tr>
<tr><td colspan="3">Financial Assistance</td></tr>
<tr>
<td>• Grants to municipalities and, in some programs, regional entities, for developing property for business uses<br>• Tax incremental bond financing backed by local property or state admission or sales taxes</td>
<td>• State reimbursements for municipally funded road work or site improvements supporting relocating or expanding businesses<br>• Funding for public infrastructure and other business activities in rural areas</td>
<td>• State economic development project loans to municipalities leveraged by local options sales taxes<br>• Revolving loans to defense-dependent municipalities for developing infrastructure supporting new or expanding military bases or creating new jobs following base realignments or closures<br>• In municipalities with fewer than 50,000 people:<br>  o Grants for developing infrastructure<br>  o Zero-interest loans for real estate development projects creating or retaining jobs for low-and moderate income people</td>
</tr>
</table>

## MULTIPURPOSE BUSINESS INCENTIVES

Multipurpose business incentives are generally available to several different types of businesses for different purposes, such as constructing new facilities, paying operating expenses, and purchasing machinery and equipment. As Table 2 shows, Connecticut and Texas, unlike South Carolina, offer many incentives in this category.

**Table 2: Selected States Multipurpose Business Incentives**

| *Connecticut* | *South Carolina* | *Texas* |
|---|---|---|
| ***Tax Benefits*** | | |
| Tax credits for:<br>• machinery & equipment<br>• fixed capital investments | No programs in this category | Tax credits for capital investments |
| ***Financial Assistance*** | | |
| • Loan for new and established businesses for various purposes, including facility construction and machinery and equipment purchases<br>• Loans for existing and early stage businesses unable to secure bank loans<br>• Flexible, multipurpose financing for economic base businesses<br>• Small business loans, grants and other assistance provided under streamlined application process | No programs in this category | Asset-backed loans for broad range of capital and operating expenses, with preference given to bioscience, nanotechnology and other businesses in state designated economic clusters |

## PROJECT-SPECIFIC INCENTIVES

The states provide tax incentives for conducting research and development, installing renewable energy systems, purchasing data processing equipment, and other specified activities. In addition, Connecticut provides tax credits to businesses participating in traffic reduction programs; South Carolina provides sales tax exemptions for materials used to build research laboratories and related equipment; and Texas provides property tax exemptions for goods shipped into the state for reshipment elsewhere.

Besides tax incentives, Connecticut provides loans for specific activities, including exporting goods and service, assisting newly formed or expanding economic-base businesses, and installing energy efficiency and renewal energy systems.

Table 3 compares the states' programs providing tax incentives and financial assistance for specific types of projects.

**Table 3: Selected States Project-Specific Incentives**

| *Connecticut* | *South Carolina* | *Texas* |
|---|---|---|
| ***Tax Benefits*** | | |
| • Business tax credits for:<br>○ purchasing electronic data process equipment<br>○ research and development expenditures<br>○ participating in traffic reduction programs<br>• Mandatory and local option property tax exemptions for specified renewal energy systems<br>• Sales tax exemptions for:<br>○ solar energy electricity generating systems, water or space heating systems, and geothermal resource systems and related equipment and installation services<br>○ machinery, equipment, and other specified items used in renewable and clean energy technology industries | • Income and withholding tax credits for businesses using state ports<br>• Tax credits for:<br>○ conducting research and development costs<br>○ purchasing and installing solar energy system purchase and installation costs<br>○ purchasing and installing renewable energy systems in facilities acquired by manufacturers locating in state<br>• Sales tax exemption for:<br>○ conducting research and development<br>○ purchasing machinery and equipment<br>○ data processing center equipment and electricity purchases<br>○ purchasing alternative energy machinery and equipment<br>○ purchasing materials used to build new facilities in research districts and machinery and equipment used there | • Property tax exemptions for:<br>○ pollution control equipment<br>○ goods shipped into Texas for reshipment elsewhere<br>• Business tax credits for:<br>○ purchasing data equipment used in data processing centers<br>○ conducting research and development<br>• Franchise tax:<br>○ exemption for renewable energy system and solar device manufacturers, sellers, and installers<br>○ deduction for solar energy device costs |
| ***Financial Assistance*** | | |
| • Loans for:<br>○ exporting goods and services<br>○ energy projects<br>○ information technology projects<br>○ small and early-stage companies potentially adding to state's economic base<br>• Rate-payer and private capital funded assistance for energy efficiency and renewal energy projects | No programs in this category | No programs in this category |

## FACILITY DEVELOPMENT INCENTIVES

The states provide incentives for constructing or expanding new facilities throughout the state, not just in targeted areas. Connecticut and South Carolina offer tax credits and property tax exemptions for developing facilities, but the latter limits its incentives to corporate headquarters. Both also provide sales and use tax exemptions for materials purchased to develop these facilities. Texas caps the school property tax assessment on new facilities occupied by businesses that create jobs.

The states also provide various types of funding for developing facilities, including taxable and tax-exempt bonding. Connecticut and South Carolina also provide assistance exclusively for cleaning up and redeveloping brownfields.

Table 4 compares the states' facility development incentives.

### Table 4: Selected States Facility Development Incentives

| Connecticut | South Carolina | Texas |
|---|---|---|
| | ***Tax Benefits*** | |
| • Tax credits for developing:<br>  o buildings meeting green industry standards<br>  o urban and industrial sites<br>• Sales tax exemptions for tangible personal property and services purchased for development project<br>• Local option property tax exemptions for newly constructed offices, stores, factories, and other specified business uses | • Business tax credits for:<br>  o establishing or expanding corporate headquarters, corporate office facilities, and distribution facilities<br>  o constructing or improving infrastructure<br>  o cleaning up brownfields<br>• Business and property tax credits for revitalizing abandoned textile mill sites or retail facilities<br>• Sales tax exemption for materials used to construct eligible manufacturing or distribution facilities<br>• Five-year property tax abatement for eligible corporate headquarters<br>• Five-year property tax exemption for businesses conducting research and development<br>• Local option fee-in-lieu of county property taxes for new capital investments totaling at least $5 million | Cap on school district property tax assessment for businesses developing property and creating jobs |
| | ***Financial Assistance*** | |
| • Grants, loans, loan guarantees, credit extensions, and other forms of financing<br>• Brownfield remediation grants and loans<br>• Tax-exempt industrial revenue bond financing<br>• Combined grants, loans, and tax credits for projects meeting minimum investment or job creation criteria within specified timeframes | • Tax-exempt revenue bond financing for developing facilities and acquiring machinery and equipment<br>• Brownfield remediation loans and tax credits | • Funding for attracting businesses choosing between sites in Texas and other states<br>• Taxable and tax-exempt industrial revenue bond financing available through city, county, and water district industrial development corporations<br>• Funding for real estate projects available under more generic programs |

## TARGETED INDUSTRY INCENTIVES

The states also target incentives only to specific business sectors, such as manufacturing and filmmaking. Connecticut and South Carolina offer business tax credits for filmmakers. South Carolina offers tax credits to businesses using the state ports.

Connecticut and Texas use sales and use tax exemptions to support key industries. In Connecticut, these exemptions are available to many different types of businesses, including manufacturing and film and video recording, while in Texas, they are available only to manufacturers.

The states also provide financial assistance to specific industries. Connecticut offers financing for constructing bioscience laboratories while South Carolina and Texas reimburse filmmakers for costs they incurred while filming in their respective states. South Carolina also funds infrastructure supporting new or expanding recreational and tourist facilities, while Texas provides grants to early-stage technology companies collaborating with state colleges and universities.

Table 5 compares the states targeted industry incentives.

**Table 5: Targeted Industry Incentives**

| *Connecticut* | *South Carolina* | *Texas* |
|---|---|---|
| | *Tax Benefits* | |
| • Business tax credits for producing films, digital animation, and film infrastructure in Connecticut<br>• Sales tax exemptions for industries, including:<br>o commercial fishing<br>o manufacturing<br>o biotechnology<br>o film and video recording and sound equipment, and<br>o metal casting foundry molds, dies, and patterns<br>• 100% property tax exemption for manufacturing machinery and equipment | Tax credits for:<br>• manufacturing warehousing, and distribution businesses increasing cargo shipped through state's ports by at least 5% over prior year<br>• businesses investing cash in qualified motion picture project and production facilities<br>• companies producing commercials<br>• manufacturers testing whole effluent toxicity<br>• rubber and plastic manufacturers investing in qualified machinery and equipment<br>• manufacturing machinery and equipment placed in service during taxable year | Sales and use tax exemptions for manufacturers:<br>• machinery and equipment purchases<br>• electricity and natural gas costs |
| | *Financial Assistance* | |
| Financing for constructing bioscience laboratories | • Funding for municipal infrastructure supporting new or expanding tourism or recreational facilities<br>• Rebates for motion picture related payroll expenses and expenditures incurred in state | • State reimbursement for portion of filming costs incurred in state<br>• Grants and matching grants for early stage technology-based businesses partnering with state colleges and universities |

## WORKFORCE DEVELOPMENT INCENTIVES

The states offer various incentives to businesses that create jobs or train incumbent workers. Connecticut's incentives available to businesses creating jobs or hiring (1) apprentices, (2) displaced workers, or (3) public assistance recipients. South Carolina's credits are available to businesses (1) creating jobs, (2) hiring public assistance recipients, or (3) establishing childcare programs. Texas' job creation credits are available only to businesses in specified industry sectors.

The states also fund workforce development. Connecticut alone provides wage subsidies to small businesses that hire unemployed residents and partially reimburses businesses for training new employees displaced from jobs eliminated by foreign competition. The states subsidize job-training community and technical colleges provide for specific businesses.

Table 6 compares the states workforce development incentives.

**Table 6: Selected States Workforce Development Incentives**

| *Connecticut* | *South Carolina* | *Texas* |
|---|---|---|
| | ***Tax Benefits*** | |
| Tax credits for:<br>• apprenticeship training<br>• human capital investment<br>• hiring temporary family assistance program recipients<br>• hiring displaced workers<br>• creating new jobs | Tax credits for:<br>• creating new jobs<br>• employing Family Independence recipients<br>• establishing child care programs | Tax credit for creating new jobs in specified industry sectors |
| | ***Financial Assistance*** | |
| • Wage subsidies (grants) for small businesses and small manufacturers hiring unemployed residents, including honorably discharged veterans<br>• Subsidized job training for incumbent workers | Customized job training through South Carolina Technical College System | Subsidized job training for businesses collaborating with community colleges to address employee training needs |

## VENTURE CAPITAL INCENTIVES

The states use tax credits to leverage private venture capital. Connecticut and Texas offers insurance premium tax credits to insurers for investing through state-approved investment funds. South Carolina offers banks tax credits for investing in state-designated investment groups. Connecticut offers individuals and businesses tax credits for investing in state-approved high technology startup businesses.

South Carolina also offers personal income and business tax credits for contributing to the state's Industrial Partnership Fund, which supports entrepreneurs, start-up businesses, and university-based research projects with commercial applications.

Besides providing tax credits to businesses investing capital, Connecticut and South Carolina directly invest in startup and early stage businesses through quasi-public venture capital agencies.

Table 7 compares the states' venture capital incentives.

**Table 7: Selected States Venture Capital Incentives**

| *Connecticut* | *South Carolina* | *Texas* |
|---|---|---|
| | ***Tax Benefits*** | |
| • Insurance premium tax credits for investing in Connecticut-based businesses meeting job and income criteria<br>• Personal income tax credits for investing in start-up, high technology businesses | • Business tax credits for banks and other lenders:<br>o making loans to state approved investment groups<br>o investing in specified seed capital funds<br>• Business and personal income tax credits for contributions to the state Industrial Partner Fund | Tax credits for insurers investing in small businesses made through government-certified capital companies |
| | ***Financial Assistance*** | |
| Venture capital investments for entrepreneurs and early- stage technology companies | Venture capital investments available through South Carolina Venture Capital Investment Authority | No venture capital funding |

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